BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. . . NOVEMBER 28, 1939

The President's Scratch-Pad

¶ In September this little column suggested that the outbreak of the European war meant a serious test for the mettle of American management.

¶ The test has already started, for while no great number of war orders are included in the demand which has sent production to its highest point in ten years, there can be no doubt that the war has accelerated demand by creating fear that goods may be hard to obtain once foreign orders do become large.

¶ And, as the production problems caused by increased demand are being solved, *the labor problem* begins to come prominently to the fore. Labor in recent years has been management's Number One problem and it may continue to be so, because under recovery and war conditions labor's strategic position tends to improve.

¶ The key to the future of the labor problem lies very largely in our industrial pricing policies. If living costs increase sharply we can expect more frequent demands for higher wages. Labor will point to the jump in prices and assert that these jumps justify their demands. If wages are raised as asked, then prices and cost of living must increase, too, and then further wage demands are in order. This is the familiar vicious circle that we all know so well.

¶ At the present moment prices, generally, have not increased greatly, nor has the cost of living. But if a price boom starts overnight, as they frequently do, the apple cart will go over with a crash that will mean the end of the recovery and the present orderly progress.

¶ The obvious policy for industry is to make strenuous efforts to keep its costs down and to keep the lid on prices, and as it does so industry should let the public know the effort that it is making. Some companies have already taken the cue and are putting on vigorous drives to control their costs. It is to be hoped that more will do this.

Alvin E. Dodd

Insurance Problems To Be Discussed At Round Table Sessions, Dec. 8

Six round-table discussions of current problems of company insurance management will feature a Conference of AMA's Insurance Division on December 8, at the Hotel Astor, New York City. The round tables, which have been organized by **Ralph H. Blanchard,** of the Columbia School of Business, who is Vice President of the AMA Insurance Division, will run concurrently—three during the morning and three during the afternoon.

Each session will be in charge of a chairman representing some insurance buying interest.

The sessions will be a departure from the usual AMA Conference, in that there will be no formal speakers, no papers, and there will be no transcript.

Among the topics that will be discussed are the following: "Insurance Management for the Smaller Company," "Automobile Fleet Insurance," "All Risk Liability Insurance," "War Risk Covers," "Establishing Insurance Values for Adjustment Purposes," and "Use and Occupancy Values."

Heads Insurance Sessions

RALPH H. BLANCHARD

BUSINESS OUTLOOK

All Indexes Up; Decline Expected But Not Yet In Sight

Practically at every point where business can be measured, there is evidence of unusual activity. But the remarkable thing is that business men, themselves, and the investing public (judging by the stock market's dullness) are wary of the situation and skeptical concerning the future. All this is reflected in the summaries from various agencies contained on the inside pages of this bulletin.

No better comment on the situation is found than this one from the current issue of *Business Week*: "It can be said that this recovery has a remarkable attribute—there are so many people who don't believe in it. At luncheon tables in business men's clubs, the question comes up, 'When is the decline coming, and how long will it last?' Nobody seems to offer any brief at all for the continuance of the present pace of activity much beyond the first of the year. Indeed, even foreign publications discuss a downturn in American business as if it were a 'shunless destiny.' "

Rise Is General

Yet the upward rush continues, in steel, in auto production, in textiles, in retail trade, in machine tools, in construction. Announcements are heard about extra dividends, corporate reports are good, and employment is up. Yet the stock market, which is supposed to reflect what investors *anticipate*, is lethargic. What are investors anticipating? According to observers, they seem to be anticipating this: a decline—that will occur when inventories become adequate and other needs are filled. They believe this will happen in the first half of 1940. The possibility that it will be only a minor decline is not remote, according to some observers.

However, to talk only about a decline that has not yet occurred, is to ignore

(Continued on back page)

BUSINESS CONDITIONS & FORECASTS . . .

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	Despite over-expansion in September, it is now doubtful whether manufacturing activity will experience any particular corrective movement before 1940; it is apparent that 1939 will be a year of an abnormally large factory output (November 18).	Total income and buying power in the U. S. have already scored notable gains from depression lows, and the underlying economic trend continues upward; foreign orders should accentuate our recovery—but regardless, domestic potentialities can bring national income, in time, up to prosperity levels (November 18).	Current news is better than busines ment; with good reports coming f quarters, it was to be expected that the man's attitude might improve; there is unanimous opinion that there's no use excited about high industrial activity, wh cline is just around the corner (Novemb
Money and Credit	The outlook for the government debt if the U. S. should become involved in the war provides a strong argument for keeping the country out of war; the U. S. is already proceeding as a fast rate toward a debt crisis without accelerating that rate by financing a war (November 18).	Analysis of national income during a war shows that the upward angle is typically very steep; although it is unlikely that the angle now will be nearly as perpendicular as in the "World War," these periods are essentially inflationary; the current period should differ more in degree than in character (November 18).	Traders are worried over the flighty despite France and England's $7,000,00 gold and liquid American investments, currency shows marked vulnerability; w pound slips, it makes British goods che other nations; but Britain's industry is with war business (November 18).
Security Markets	There does not appear reason to suspect a turn in the major market trend at the present time; none of the technical barometers contain this suggestion nor does the behavior of the bond market point to that conclusion; bond yields remain above the lows of the year but the spread is slight (November 16).	The narrow range of the stock market is accounted for by the following factors: foreign selling; absence of war orders; effects of labor troubles; threat of excessive inventories; possible tax boosts; concern over 1940 politics; fear of peace (November 18).	Low-priced stocks have been getting a the theory that these companies have idle capacity and can, therefore, find r war orders. But the market generally livening up even though corporate earn ports are good and evidence of consume of goods continues (November 11).
Production	There is little prospect that much of a setback will occur in manufacturing activity; even though a setback does not occur this year, the fact that overproduction now prevails means that a corrective movement must eventually take place; this reaction may be expected some time in the first half of 1940 (November 18).	Inventories are rising, but so are sales; and stocks had been depleted, thus compelling some building-up to meet expanding consumption; in some lines early peace would require a readjustment; but generally, warnings against overbuying have been broadcast widely enough to lessen the danger of a serious letdown (November 18).	Despite the Chrysler shutdown, Motors, Ford and other manufacturers auto output to record a gain; heavy cons awards rose smartly; one-sixth of the s ing produced is being stored by jobbers mate users, suggesting that next year t ating rate will slump (November 18).
Distribution	Department store sales in the U. S. during the week ended Nov. 4 showed an increase of 13% over a year ago as compared with a gain of 5% in the preceding week; Sears, Roebuck & Co. reports that its sales were 23.7% larger than in the corresponding period last year; auto sales are rising (November 18).	It is our estimate that the dollar value of department store sales this Christmas will exceed the 1936 level, which was the peak of the 1933-1937 recovery period; though the dollar value will fall well short of the record 1928-1929 totals, the physical volume of goods will be greater (November 18).	There was continued evidence that ret ing during this month has been comin with a rush (November 18).
Construction		The well-nigh universal tendency to postpone projects during the severe depression of the early nineteen-thirties has built up a vast backlog of business in the construction, machinery, equipment, and other durable and capital goods industries (November 18).	A derived demand has been built up f ing and new factories; already the inc private construction awards provides that this influence is at work (Novemb
Agriculture	Farm income in September increased about 8.8% over a year ago, but the gain did not offset losses in previous months of 1939; as a result, the farmers' income from marketings in the first nine months was less than in the same period last year, declining from $4,883,000,000 from $5,024,000,000 a year ago (November 11).	Business withdrawals as shown in national income figures were 8.5% greater in September 1939 than in September 1938; this item includes the sums that farm operators pay themselves out of their enterprises; farm income, though having lagged for a time in this recovery, has since pointed up (November 18).	The U. S. produced in 1939 the third corn crop in a decade; a huge supply of corn may exist next October, but another in live-stock population on January 1 crease corn consumption; moreover, ind are that farmers will be asked to cut corn some 10% from this year's level (Novemb
Commodity Prices	In the week ended October 28, the price index of farm products receded slightly, after rallying in the previous week; this decline was offset by a drop in the prices of manufactured goods; therefore, the purchasing power index remained unchanged at 73.4. Little improvement is in immediate prospect (November 11).		
Labor and Wages	In September factory payrolls rose to the highest level since October, 1937. The index on the basis of 1923-1925 as 100, advanced from 89.9 in August to 93.7 in September; the September index was 14.8% higher than in the same month last year, when the index was 81.6 (November 11).	When settlement of the auto strike is finally achieved, the motor industry faces a long period of high production; economic recovery impels unions to increase their demands, so further strikes are indicated; but the alienation of public sympathy by the 1937 union excesses is a moderating influence (November 18).	September showed a further drop in ployment according to the N.I.C.B. The re for the month was 7%, and since last F the jobless army has been reduced by 18 ployment is now at 45,943,000—not far 1929 average of 47,885,000; but unempl is listed at about 8,700,000 (November
Foreign Trade and Conditions	The British government has arranged to buy Canada's entire output of copper, lead and zinc for the duration of the war; it is estimated that allied purchases in the U. S. during the first year of the war may not exceed $200,000,000 and that war may not offset the possible losses of peacetime trade (November 11).	There has been some foreign selling of U. S. securities, but selling by the allies to pay for war orders need not be urgent, because they have large liquid resources in bank deposits and gold; it is to their advantage to regulate selling of securities in such a way as to obtain high prices rather than depress the market (November 18).	The British are bargaining more shrew than in the last war; except in a few line ish home industry is keeping up with d demand so far, and British foreign holdi being carefully preserved for more urgen (November 18).

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Dun's Review

A dullness in financial activity contrasts oddly with the near-record operations in industry; caution once more dominates wholesale purchasing, but retail buying has stepped ahead briskly; inventory consumption is again more common than inventory expansion (December).

Bank clearings (22 cities) totaled $22,243,754 in October, or 0.7% below September, and 7.1% below a year ago; the adjusted Insolvency Index (Failures) stood at 54.0 in the same month, compared with 51.1 in September and with 54.7 in October a year ago (December).

Apathy returned to the stock market: turnover during October and the first half of November averaged about 976,303 shares a day, compared with 2,283,657 in September; the Dow-Jones composite average of 65 stocks was 51.67 on October 2 and 51.52 on November 16 (December).

Industrial activity in October, as measured by the FRB adjusted index of production, averaged less than 1% below the peak of the 1936-1937 recovery; preliminary reports indicate that it exceeded that level in early November (December).

Outstanding developments in consumer buying were the increased demand for luxury and higher-price goods and the greater use of instalment and other credit plans; the adjusted Trade Barometer in September was 86.8, or 10.7% above last September's level (December).

October building permits (215 cities) totaled $117,878,159, an increase of 21.4% compared with October 1938. The advance from the September volume of $103,203,666 was 14.2%, against a normal seasonal gain of 2.5 per cent (December).

The Daily Price Index of 30 basic commodities held fairly steady at about 118% of the 1930-1932 average; on November 16 the index stood at 118.07, 1.6 points below the peak in mid-October and 14.7 points above the level at the end of August (December).

Despite a decline in shipments to belligerents during October, preliminary figures of the Commerce Department indicate a seasonal gain in merchandise exports of about 14%; the total of $323,000,000 was 18% greater than the figure for October 1938 (December).

Cleveland Trust Company

There is no room for doubt about the genuineness of this industrial recovery, but there is real doubt about its continuing; the three forces that could sustain its upward progress are: genuinely big war orders; increased large scale pump-priming; and an important increase in the volume of new capital issues (November 15).

Financial barometers are recording their skepticism about the future prospects of this business revival; bonds have regained much of their losses, and investors are again seeking safety and avoiding risks; commercial bank loans had increased since last February, but now the advance appears to have stopped (November 15).

Stock prices rose briskly for nearly two weeks after the start of the war, but since then they haven't surpassed those levels; a seat on the New York Exchange sold for $60,000 — not much above the lowest reached since the last war. Evidently brokers do not anticipate much profitable market activity (November 15).

Business activity as measured by the physical volume of industrial production has made unusual progress during the past two months; in June it was 27.0% below the norm, in July 24.9% below, in August 23.5% below, and in September only 17.7% below; preliminary figure for October is 11.2% below (November 15).

Production is still eight points below distribution, instead of being almost equal to it as it was at the close of 1936, and so far in this recent period production has not been increasing any more rapidly than distribution (November 15).

Decreases in the number of new issues sold to raise money for new construction are particularly noteworthy; formerly there were many of them, but in recent years there have been but few; now they mostly serve to permit corporations to refinance large old issues that are maturing (November 15).

Despite the large orders for airplanes, it now seems unlikely that the warring nations will make purchases here in volumes comparable to those of 1915 and 1916 (November 15).

National City Bank

While business history supplies precedents to show that reactions almost always follow forward buying movements, there is nothing to indicate that a reaction is now imminent, inasmuch as the industries hold unfilled orders which will keep them busy into the first quarter in many cases (November).

The chief development of the past month in financial markets has been the substantial recovery in high grade bonds and indications that investors are taking a calmer view of the future of interest rates; bond prices have now recovered up to 50% of their previous loss (November).

Stock prices have made no progress since their first uprush; according to past relationships the price averages appear low in comparison with the production and earnings assured for the fourth quarter, but investors are evidently looking beyond all this to the reaction that may follow after inventories are replenished (November).

The Federal Reserve index of production for September was 110 compared with 103 in August and the increase in October apparently has been greater; in many industries November output will exceed October and the seasonal slackening toward the end of the year will be less than usual (November).

Retail trade improved in the latter part of September, and has held its gains in October; department store dollar sales are within 3% of the 1937 peak, according to the Federal Reserve Board's seasonally adjusted index, and as prices are lower the movement of merchandise must be considered satisfactory (November).

Building contract awards in September were the highest since April, and 7.4% above the same month last year; total awards dropped somewhat in the first two weeks of October; but private contracts continued upward; mortgages accepted by the FHA have continued high, showing that private building is not entering a slump (Nov.).

In many cases prices have been maintained despite rising costs; 1940 autos are being offered at less than a year ago; steel price increases have not been general; prices for the first quarter of 1940 are expected to be moderate in contrast with the higher cost of materials (November).

No conclusions can yet be drawn as to the prospects for our foreign trade to neutral countries, but it is plain that the chief uncertainty is the ability of these countries to pay for goods; it would be a mistake to assume that the British are easily surrendering Latin-American markets (November).

Personnel Conference To Be in Chicago On February 14-15-16, Dietz Announces

The annual AMA Personnel Conference will be held in Chicago on February 14-15-16, it was announced this week by **J. Walter Dietz**, Personnel Relations Manager, Western Electric Company, Inc., and Vice President of the AMA Personnel Division, following a poll of the AMA membership regarding the desired location. While the coming meeting will be the third successive Personnel Conference that has been held in Chicago, this fact does not constitute a precedent, and future conferences of the Division will, in all probability, be held in other cities, as well as Chicago.

On the basis of a number of planning meetings with various AMA groups and after checking with the Association's membership, Mr. Dietz and the committee working with him have announced the following program plans:

Wednesday Morning—"The Personnel Man's Job." This session will show how the personnel job is tied in with upper management policy-making decisions, and will bring out the economic basis of sound personnel policies. Two papers are contemplated: "Top Management Views the Personnel Job"; and "The Personnel Man's Organizational Relationships."

Wednesday Afternoon—This afternoon session will be broken up into two concurrent sessions. One will be on "Sharpening the Personnel Tools," and will, in effect, be a "symposium" designed to meet the needs of people facing increased personnel responsibilities. It will outline proven basic methods and techniques.

The parallel session will be on "Putting Psychology to Work." It will bring out the progress that has been made in the application of psychology to selection, up-grading, training, employee relations, and the like.

Thursday Morning—This session will be devoted to the theme, "Leadership and Communication." Papers by executives who have been exceptionally successful in keeping direct contact with their employees will discuss ways and means of maintaining two-way communication through all levels of the supervisory and working force.

Thursday Afternoon—Papers in this session will elaborate upon the theme, "What Are We Doing About Collective Bargaining?" This session will lift collective bargaining out of the field of controversy and conflict and will provide a constructive approach toward better understanding. Specific papers will include: "Keeping Up-To-Date on N.L.R.A."; "Organized Labor's *Research Approach* to Management-Labor Problems"; and "Governmental Conciliation Experience."

Thursday Evening—One of AMA's traditional dinner-smokers will be devoted to "We Changed Our Practice, and I'll Tell You Why." Actual case examples of how specific problems in personnel management were solved will be presented in a practical, down-to-earth way. These experience stories will be presented by a panel of men drawn from widely differing industries, and supplementary discussion will be solicited from the audience.

Friday Morning—The first part of this morning's session, devoted to "Current Problems," will be divided into two concurrent meetings. One will provide for a symposium discussion of "Adapting Private Pension Plans to Social Security." The other will be devoted to problems of shortages of skills and training problems, confronting many industries today.

After these concurrent sessions, the meeting will again convene as a whole, for a discussion of "Labor Economics in a Period of Change."

Friday Luncheon—This luncheon session, which will wind up the Conference, will develop the theme, "Is Personal Leadership Possible These Days?" It will show how executives, even in large organizations, are finding it possible to provide personal leadership of their working and supervisory forces.

Insurance Conference Attracts Large Group

One of the most successful conferences that the AMA Insurance Division has held took place on December 8 when a group of more than 300 buyers and sellers of insurance met in New York for a one-day meeting to discuss current insurance problems.

Six separate sessions devoted to the discussion of the same number of topics ran concurrently through the day. There were no speakers and no prepared papers were read. The discussion was based on questions that had been submitted to technical insurance advisers in advance of the meeting.

The topics covered included the following: Insurance Management for the Smaller Company; Automobile Fleet Insurance; All Risk Liability Insurance; War Risk Covers; Establishing Insurance Values for Adjustment Purposes; Use and Occupancy Values.

The conference was planned under the direction of **Ralph H. Blanchard,** of the Columbia School of Business, Vice-President of the AMA Insurance Division.

EXECUTIVES TO MEET AT FINANCE SESSIONS

(Continued)

Flahive, Comptroller, Columbia Gas & Electric Corporation, and Vice President, AMA Finance and Accounts Division; "Government Regulation and Financial Management," Dana C. Backus; "Corporate Financing: Refunding Old Obligations and Financing New Issues"; "Capital Loans for the Smaller Business," Glenn McHugh, Second Vice-President, The Equitable Life Assurance Society of the United States.

Wednesday Afternoon. "The Present Status of Industrial Budgeting," Arthur Lazarus, Day & Zimmermann, Inc., Chairman of the session. "Flexible Budgeting," S. R. Shave, Director of Budgets, Westinghouse Electric & Manufacturing Co., Pittsburgh; "Justified Departures from Detailed Budgeting"; "Budgeting Sales and Selling Costs."

Thursday Morning. "Effect of Social Legislation on Production and Operating Costs," P. F. Boyer, Comptroller, Republic Steel Corporation, Cleveland; "Effect of Social Legislation on Operation of Private Pension Plans," Walter Forster, Partner, Towers, Perrin, Forster & Crosby, Inc., Philadelphia.

Luncheon session. Speaker, Jerome Frank.

Thursday Afternoon. "Realism in Accounting," Charles B. Couchman, Barrow, Wade, Guthrie & Company, New York; "New Thinking in Auditing," Samuel J. Broad, Partner, Peat, Marwick, Mitchell & Company, New York, and Vice President, American Institute of Accountants; "Inventory Checking and Some of Its Problems," E. S. Coldwell, Ford, Bacon & Davis, Inc., New York. Wyman P. Fiske, Associate Professor of Accounting, Massachusetts Institute of Technology, will preside over this session.

BUSINESS OUTLOOK

(Continued)

generally have unfilled orders that should keep production at a high rate well into the first quarter. The belief that some slow down in factory output will occur sometime during the first half of 1940 is very general, since consumption has not risen sufficiently to remove this entire output immediately.

However, a high level of operations is predicted in the first quarter for the heavy capital goods industries. The National City Bank considers this the most important element in the outlook. The advances in capital goods are the result of the rise in business activity since September. Just to keep up with demand, many concerns have had to start modernization and replacement programs, regardless of uncertainty about the future. Orders have slackened in November, and it remains to be seen if they will pick up. This will largely depend upon whether there will be an increase in the volume of capital issues.